

BOARD OF TRUSTEES
FOR THE
STATE RETIREMENT AND PENSION SYSTEM
OF MARYLAND

MINUTES OF MEETING

January 16, 2001

The Board of Trustees for the State Retirement and Pension System of Maryland met on January 16, 2001, at 9 30 a m , in the Assembly Room of the Louis L Goldstein Treasury Building, Annapolis, Maryland There were present Richard N Dixon, Chairman, Arthur N Caple, Jr , William D Brown, Carl D Lancaster, Frank P Casula, Morris L Krome, G Bruce Harrison, Nancy S Grasmick, David B Mitchell, and Debra B Humphnes, Trustees, and Peter Vaughn, Secretary Agency staff members also attending were Margaret A Bury, Retirement Administrator, Harriet B Granet, Robert Feinstein and Carla G Katzenberg, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, J Howard Pleines, Director of Legislation, Thomas Gighotti, Chief Internal Auditor, Ricky Harrison, Chief Financial Officer, and Shirley A Hartnett, Administrative Officer

Jacqueline D Day, Joel E Segall, attorney for Ms Day, Granville H Hibberd, and Frederick H Stalfort, attorney for Mr Hibberd, were also present

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| Minutes | 1 | On motion made by Mr Harrison and seconded by Colonel Mitchell, the Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on December 19, 2000, were approved |
| Minutes | 2 | On motion made by Mr Casula and seconded by Colonel Mitchell, the Minutes of the special meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on December 27, 2000, were approved |
| Jacqueline Day | 3 | The Board considered the report of John M Zell, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Jacqueline D Day The Board also reviewed additional documentation distributed at the meeting, which was inadvertently omitted from the record Ms Day appealed the Medical Board's denial of accidental disability benefits The Medical Board reasoned that, although Ms Day is disabled due to multiple peripheral neuropathy, the Medical Board did not believe her disability was the result of an "accident that occurred at a definite time and place" within the meaning of State Personnel and Pensions Article, Section 29-109 |

Jacqueline Day 3 (Continued)

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded there was no basis to conclude that Ms Day's disability was the result of an unusual strain or exertion, or an unusual condition of employment. The Administrative Law Judge further concluded that Ms Day's disability was the result of an occupational disease, not an accident.

Mr Joel E Segall, attorney for Ms Day, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms Carla G Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. The Board deferred further consideration to executive session.

Charles L McBride 4

The Board considered the report of A J Novotny, Jr, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Charles L McBride. Mr McBride appealed the Medical Board's denial of accidental disability benefits. The Medical Board reasoned that, although Mr McBride is disabled due to coronary artery disease, chronic bronchitis, diffused myalgias and complaints of chronic pain, iatrogenic narcotic dependency and personality disorder NOS, the medical evidence submitted did not prove that the work-related accident caused Mr McBride's disability.

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Mr McBride failed to establish that his disability is the natural and proximate result of the work-related accident that occurred in January 1994.

Neither Mr McBride, nor any representative appeared before the Board at this meeting. The Board noted Mr McBride notified the Agency he would be unable to attend the meeting and requested the Board consider the appeal on the record before them. Ms Carla G Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. The Board deferred further consideration to executive session.

Granville Hibberd 5

The Board considered the report of C Hooker Davis, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Granville H Hibberd. Mr Hibberd appealed the Retirement Agency's denial to either a) pay him a monthly retirement allowance based on an erroneous estimate, or b) rescind his service credit purchase and pay him the expenses he incurred to raise the funds to purchase the service. The Agency had given Mr Hibberd the option of either receiving the corrected maximum monthly benefit or rescinding his service credit purchase without reimbursement of his expenses but denied his requested relief.

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision. The ALJ concluded that the Agency acted within its statutory authority when, pursuant to State Personnel and Pensions Article, Section 21-113, it corrected its records to ensure that Mr Hibberd received only the benefit to which he was lawfully entitled.

Mr Frederick H Stalfort, attorney for Mr Hibberd, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Mr Robert Feinstein, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. The Board deferred further consideration to executive session.

On motion made by Mr Casula and seconded by Col Mitchell, the Board unanimously voted to meet in Executive Session to consider the appeals of Jacqueline D Day, Charles L McBride and Granville H Hibberd. State Government Article Section 10-502(i) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

EXECUTIVE SESSION

The Board met in Executive Session at 10:35 a.m. in the Louis L Goldstein Treasury Building to discuss the appeals of Jacqueline D Day, Charles L McBride and Granville H Hibberd. All of the persons present at the beginning of the meeting were present in Executive Session except Nancy S Grasmick, Carla G Katzenberg, Robert Feinstein, Jacqueline D Day, Joel E Segall, Granville H Hibberd and Frederick H Stalfort. The Board adjourned its Executive Session at 11:05 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

Jacqueline Day On motion made by Mr Harrison and seconded by Mr Casula, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms Day's request for accidental disability retirement benefits

Charles McBride On motion made by Col Mitchell and seconded by Mr Casula, the Board unanimously voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Mr McBride's request for accidental disability retirement benefits

Granville Hibberd On motion made by Mr Brown and seconded by Mr Casula, the Board voted, 5 to 3, to table the appeal for one month. The matter is being referred to the Executive Committee for their recommendation with regard to alternative solutions to adequately address the concerns of Mr Hibberd and the Agency. Col Mitchell, Ms Humphries and Messrs Casula, Brown and Lancaster registered Yea votes and Major Krome and Messrs Harrison and Caple registered Nay votes

Executive 6 Mr Vaughn noted that each December the Participating Governmental
Director's Report Units (PGU's) are billed for employer contributions. For Fiscal Year 2001, 137 PGU's were billed in the amount of \$43,463,354 (109 PGU's - \$36,203,235 and 28 Withdrawn -\$7,260,119). To date, \$43,084,613 has been paid. There are two PGU's with outstanding balances totaling \$378,741. They are Anne Arundel County Economic Opportunity Commission (\$82,190) and Shore Up¹ (\$296,551).

Mr Vaughn informed the Board the one-year anniversary date of the Agency's relocation to its new headquarters in the SunTrust Building, on 120 East Baltimore Street is January 18th. Mr Vaughn thanked the Board on behalf of the Agency for their diligence in obtaining a building to consolidate the State Retirement Agency. To express appreciation for their very much-improved working conditions, all of the Agency employees signed a large "Thank You" placard, which Mr Vaughn presented to the Board.

The Board accepted Mr Vaughn's report

Investment
Committee Report

7 Mr Arthur Caple, Jr , Chairman of the Investment Committee, reported on the Committee's meeting held on January 12, 2001

Mr Caple noted the Lubert-Adler Real Estate Proposal was deferred and will be reviewed at the Committee's February meeting

Mr Caple also noted the Committee was given a presentation by Speaker Cas Taylor and Dave Ianucci on the Department of Business and Economic Development Real Estate Proposal, which requested \$150 million for investment in technology parks in Maryland This proposal was referred to the Real Estate Subcommittee for consideration of a proposed policy response and draft in February

Mr Caple informed the Board the Investment Committee had completed the second part of a review of benchmarks for managers and asset classes and recommended approval of the investment staff's proposal The Committee recommended adopting the recommendation of staff with two amendments a) amending the definition of the "Minority" category for fund of funds to "Emerging Minority Managers", and b) the determination of the appropriate premium for the "Emerging Minority Managers" category, if any, would be deferred until July, 2001 On motion made by Mr Caple and seconded by Ms Humphries, the Board voted 5 to 4 to adopt and approve the Committee's recommendation (Exhibit A) Ms Humphries, Col Mitchell and Messrs Dixon, Caple and Casula voted in favor of the motion and Major Krome and Messrs Harrison, Lancaster and Brown registered Nay votes

Chairman Dixon advised the Board that Investment Committee recommendations could not be reversed Any suggestions for changes would be remanded back to the Investment Committee for further deliberation

Next, Mr Caple reviewed the Committee's recommendations for under performing managers No terminations were recommended The Real Estate Subcommittee will review Sentinel in February and prepare a recommendation for the Committee to review On motion made by Major Krome and Mr Harrison, the Board unanimously voted to refer the recommendation of the Investment Committee (to take no action regarding Chapman MET) back to the Committee for further study and reconsideration In addition, an advice of counsel was requested regarding the impact of potential bankruptcy of any manager or the Agency's ability to retrieve assets under management

Investment
Committee Report

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(Continued)

Mr Caple advised the Board the Investment Committee will review asset allocation again at its February meeting. No significant changes to the asset allocation are expected. A temporary exemption for the upper end of the real estate range is recommended to provide for real estate to exceed the current 5% cap until new asset allocation policy is reviewed and approved. On motion made by Mr Caple and seconded by Mr Casula, the Board voted to allow the Real Estate asset class to exceed the 5% cap until next month. The cap would be raised 2½% temporarily (changing the cap from 2-5% to 2-7½%).

Mr Caple informed the Board the Committee reviewed securities lending and the contract renewal for State Street Bank. The Committee recommended a one-year extension, with one-year renewals, of the State Street securities lending contract with the following changes: a) improvement of a fee split to an 80/20 ratio, b) continued indemnification from losses in the US Government fixed income lending, and c) maintaining the Quality A STIF portfolio at no more than 20% of the total Quality A Fund. On motion made by Mr Caple and seconded by Mr Harrison, the Board unanimously approved the extension to the State Street contract.

Mr Caple reviewed the presentation by Dimensional Fund Advisors concerning a request to modify their investment strategy. The Investment Committee recommended approving the investment strategy, as outlined in the its January 12, 2001 agenda package, but withholding approval of a new benchmark. The Board, on motion made by Mr Caple and seconded by Mr Casula, voted unanimously to accept the Committee's recommendations. The Committee will review the matter further and provide a suitable benchmark recommendation for DFA in the future.

The Board accepted Mr Caple's report.

Executive
Committee Report

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Mr William D Brown, Chairman of the Executive Committee, reported on the regular meeting held January 9, 2001 (Exhibit B).

Mr Brown informed the Board, the Committee had discussed the concerns of Patricia Scott, who had requested relief from the offset of pension benefits because of an earnings limit violation. The Committee was advised of the actions the Agency staff is taking to better educate retirees relating to reemployment.

(Continued)

Mr Brown advised the Board the Executive Committee recommended that a hearing to suspend Cynthia Gadarian's disability benefit be deferred until the end of the 2001 school year. In addition, the Committee recommends, if Ms Gadarian is capable and continues employment and, if the Board decides to suspend the benefit, the suspension would apply to benefits payable after the end of the current school year. On motion made by Mr Brown and seconded by Major Krome, the Board unanimously voted to accept and approve the recommendations of the Executive Committee.

Next, the Committee recommended to the Board that the calculation of average final compensation for ordinary disability benefits payable from the pension systems be computed on earnable compensation projected to normal retirement age without change. This change in policy is to be affective for any disability approved on or after January 1, 2001. Furthermore, the Committee recommended directing the Retirement Agency to recalculate Tom O'Rourke's disability benefit to increase his average final compensation to his current annual salary rate. On motion made by Mr Brown and Major Krome, the Board unanimously accepted and approved the Committee's recommendations.

Mr Brown informed the Board that Ms Tammy Kness of Syscom had provided the Committee with an update on the Strategic System Development Project. Ms Kness noted two new employees were hired: Debbie Auerbach, who will serve as Project Manager of Testing, and Richard Kniseley, who will work for Ms Auerbach. Ms Kness stated she remains confident that the project is on line to be completed by October, 2001.

Mr Brown noted the Committee also received a legislative report from Howard Pleines on legislative proposals that could be considered by the 2001 General Assembly.

Mr Brown also noted the Committee had received a report from Howard Pleines that the Town of LaPlata had agreed to participate in the Employees' Contributory Pension System effective January 1, 2001.

Lastly, Mr Brown reported the Committee reviewed a request from State Trooper Julianne E. Pritchard that she be permitted to transfer service credits beyond the one-year requirement established by law. Mr Vaughn recommended denial of the request. The Committee agreed since the law did not permit the waiver of the one-year requirements for any reason. Mr Vaughn will prepare a formal denial of the appeal for the Committee's review and recommendation at its next meeting.

The Board accepted Mr Brown's report.

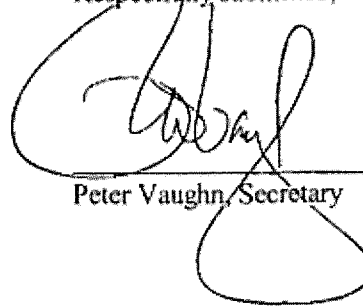
- 2001 Proposed Legislation 9 Mr J Howard Pleines, Director of Legislation and Research, reported on proposed legislation for the 2001 Session of the General Assembly
- The Board accepted Mr Pleines' report
- Medical Board Reports 10 The Board, on motion made by Mr Caple and seconded by Mr Lancaster, unanimously approved the reports of the Medical Board in connection with applications of members for ordinary and accidental disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.
- Supplemental Medical Board Reports 11 The Board, on motion made by Mr Casula and seconded by Mr Caple, unanimously accepted and approved the supplemental reports of the Medical Board in connection with applications of members for ordinary and accidental disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. The Supplemental Report of the Medical Board is shown as Exhibit C.
- Other Business 12 On motion made by Mr Casula and seconded by Major Krome, the Board voted unanimously to approve the request of the Wor-Wic Community College to institute an employer pick-up program in accordance with Section 414(h)(2) of the Internal Revenue Code, to enable their members' mandatory contributions to be treated as pre-tax contributions for Federal income tax purposes. (Exhibit D)
- Other Business 13 Several Board members voiced their concerns over special meetings that are called by the Chairman without adequate advance notice to all the Trustees. Mr Brown noted the elected Trustees are at a disadvantage in representing their System's members when meetings are called with inadequate notice. Mr Dixon responded that, as Chairman of the Board, he would make the decision when a special meeting of the Board was necessary.
- A motion was made by Mr Brown and seconded by Mr Lancaster that the Board of Trustees operate under Robert's Rules of Order and this procedure be placed in the Official Board Minutes. The Chairman ruled the motion be to out of order and did not call for a vote.
- Major Krome expressed his concern regarding the Chairman's ruling that recommendations from the Executive and Investment Committees could only be accepted or remanded without the full Board having the opportunity to hear the discussions involving the subject matter.

Other Business 13 (Continued)

Mr Lancaster felt the Chairman's actions (concerning the rejection of motions made by Trustees, the rulings concerning Executive and Investment Committee recommendations, and the calling of special meetings) should be addressed. Mr Lancaster requested an advice of counsel concerning the operating rules and procedures of the Board, the Chairman's authority to deviate from the normal procedures and operating rules, and the Chairman's responses to motions made by Trustees.

There being no further business, on motion made and duly seconded, the Board adjourned at 12 00 p m

Respectfully submitted,



Peter Vaughn, Secretary

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